

# Understanding Federal Income Taxation

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SEVENTH EDITION

**J. Martin Burke**

EMERITUS PROFESSOR OF LAW  
UNIVERSITY OF MONTANA SCHOOL OF LAW

**Michael K. Friel**

EMERITUS PROFESSOR OF LAW  
UNIVERSITY OF FLORIDA COLLEGE OF LAW



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*To Jackie and Jonathan and My Mother and Father*

—MKF

*To My Mother and Father  
and My Eleven Brothers and Sisters*

—JMB





# Contents

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Preface	xxiii
Acknowledgments	xxv
<b>Chapter 1 • Introduction to Federal Income Tax</b>	<b>3</b>
§ 1.01 A Brief History of Federal Income Tax	3
§ 1.02 Resolution of Tax Issues through the Judicial Process	5
[A] Trial Courts	5
[1] The Tax Court	5
[2] Federal District Courts	6
[3] The United States Court of Federal Claims	6
[B] Appellate Courts	6
[C] Selection of Forum	7
§ 1.03 Computation of Tax Liability	7
[A] Basic Questions Addressed by an Income Tax System	7
[B] Evaluating Tax Liability	7
[1] Calculating Gross Income	8
[2] Defining Adjusted Gross Income	10
[3] Determining Deductions	11
[4] Calculating Adjusted Gross Income	14
[5] Calculating Taxable Income	14
[a] Itemize or Elect Standard Deduction	14
[b] Standard Deduction	15
[c] Itemized Deductions	15
[d] Miscellaneous Itemized Deductions	15
[e] Personal Exemptions: No Deduction	16
[f] Section 199A: The Qualified Business Income Pass-through Deduction	16
[g] Calculating Taxable Income	17
[6] Tax Rates	17
[7] Credits	17
§ 1.04 Conclusion	18
<b>Chapter 2 • Gross Income Concepts and Limitations</b>	<b>19</b>
§ 2.01 The Search for a Definition of Income	19
§ 2.02 Income Realized in Any Form	22
§ 2.03 Realization, Imputed Income, and Bargain Purchases	24

[A] The Realization Requirement	24
[B] Imputed Income	26
[C] Bargain Purchases	29
<b>Chapter 3 • The Effect of an Obligation to Repay</b>	<b>31</b>
§ 3.01 Loans	31
§ 3.02 Claim of Right	33
§ 3.03 Illegal Income	35
§ 3.04 Deposits	38
<b>Chapter 4 • Gains Derived from Dealings in Property</b>	<b>41</b>
§ 4.01 Computing Gain Derived from Dealings in Property	41
§ 4.02 Tax Cost Basis	44
§ 4.03 Impact of Liabilities	45
[A] Impact on Basis	45
[B] Impact on Amount Realized	47
§ 4.04 Basis of Property Acquired in Taxable Exchanges	48
<b>Chapter 5 • Gifts, Bequests, and Inheritance</b>	<b>53</b>
§ 5.01 Exclusion of Gifts from Income	53
[A] The Nature of a Gift	54
[1] Employer-Employee “Gifts”	55
[2] Business Gifts	56
[B] The Nature of a Bequest or Inheritance	56
[C] Statutory Limitations on the Exclusion — Section 102(b)	57
§ 5.02 Basis of Property Received by Gift, Bequest, or Inheritance	59
[A] Gifts of Appreciated Property	59
[B] Gifts of Property — Basis in Excess of Fair Market Value	61
[C] Basis of Property Received by Bequest or Inheritance	63
§ 5.03 Part-Gift, Part-Sale	66
<b>Chapter 6 • Sale of a Principal Residence</b>	<b>69</b>
§ 6.01 Ownership and Use Requirements	70
§ 6.02 Amount Excludable	75
§ 6.03 Exclusion for Taxpayers Failing to Meet Certain Requirements	77
§ 6.04 Limitation on Exclusion for Depreciation Claimed	80
§ 6.05 Principal Residence	81
§ 6.06 Conclusion	83
<b>Chapter 7 • Scholarships and Prizes</b>	<b>85</b>
§ 7.01 Prizes and Awards	85
[A] Prizes and Awards Generally Taxable	86
[B] Employee Achievement Awards Exempt	86
§ 7.02 Qualified Scholarships	89
[A] Limitation of Exclusion	89
[B] Scholarships as Compensation	91

[C] Tuition Reduction	92
[D] Educational Assistance Programs	92
[E] Gifts	93
<b>Chapter 8 • Life Insurance, Annuities, and Individual Retirement Accounts</b>	95
§ 8.01 Life Insurance	95
[A] Exclusion of Mortality Gains	95
[B] Death of the Insured	98
[C] Accelerated Death Benefit	99
[D] Surrender for Value	99
[E] Interest Income	100
[F] Transfer for Value	101
[G] Group-term Life Insurance	103
§ 8.02 Annuities	103
§ 8.03 Individual Retirement Accounts	107
[A] Deductible IRAs	108
[1] Deduction Limits	108
[2] Taxation of Distributions	108
[3] The Investment-for-Retirement Purpose	109
[B] Nondeductible IRAs	109
[1] Nondeductible Contribution Limits	109
[2] Distributions	110
[3] The Investment-for-Retirement Purpose	110
[C] Roth IRAs	110
[1] Contribution Limits	110
[2] Distributions	111
[3] The Investment-for-Retirement Purpose	111
[D] Conclusion	111
<b>Chapter 9 • Discharge of Indebtedness</b>	113
§ 9.01 Historical Background	113
§ 9.02 Specific Rules Governing Exclusion	115
[A] Discharge of Indebtedness When Taxpayer Is Insolvent	115
[1] Case Law Pre-1980 Bankruptcy Tax Act	115
[2] The Insolvency Exclusion Under Section 108	116
[B] Discharge of Qualified Real Property Business Indebtedness	119
[C] Discharge of Indebtedness on Principal Residence	120
[D] Purchase-Money Debt Reduction for Solvent Debtors	121
[E] Acquisition of Indebtedness by Person Related to Debtor	123
[F] Discharge of Deductible Debt	124
[G] Discharge of Certain Student Loans	125
§ 9.03 Disputed or Contested Debts	126
§ 9.04 Discharge of Indebtedness as Gift, Compensation, Etc.	128

§ 9.05 Inapplicability of Section 108 to Gain Realized on Transactions Involving Discharge of Indebtedness	129
<b>Chapter 10 • Compensation for Personal Physical Injury and Physical Sickness</b>	131
§ 10.01 Introduction	131
§ 10.02 Damages	132
[A] Business or Property Damages	132
[B] Exclusion for Damages Received on Account of Personal Physical Injuries or Physical Sickness	133
[C] Supreme Court Limitations on Section 104(a)(2)	136
[1] What Is a “Personal Injury”?	136
[2] When Are Damages Received “on Account of” a Personal Injury?	136
[D] Restricting the Exclusion to Personal Physical Injury or Physical Sickness	138
[1] Distinction between Physical and Non-Physical Injuries	138
[2] Personal Physical Injury or Physical Sickness	140
[3] Emotional Distress	142
[4] Recoveries by Individuals Other than Individuals Suffering Personal Physical Injury or Physical Sickness	145
[E] The Current Regulations and the Definition of “Damages”	145
[F] Punitive Damages	146
[G] Allocation of Awards	147
[H] Periodic Payments	149
§ 10.03 Payment under Accident and Health Insurance Policies	150
§ 10.04 Previously Deducted Medical Expenses	153
§ 10.05 Workers’ Compensation	154
§ 10.06 Certain Disability Pensions	154
<b>Chapter 11 • Fringe Benefits</b>	155
§ 11.01 Meals and Lodging	155
[A] The Treatment of Meals and Lodging Prior to 1954	155
[B] Section 119 — Meals or Lodging Furnished for the Convenience of the Employer	156
§ 11.02 Fringe Benefits and Section 132	159
[A] No-Additional-Cost Service	160
[B] Qualified Employee Discount	163
[C] Working Condition Fringe	166
[D] De Minimis Fringe Benefits	168
[E] Qualified Transportation Fringe	169
[F] On-Premises Gyms and Other Athletic Facilities	170
§ 11.03 Valuation	171

<b>Chapter 12 • Business and Profit Seeking Expenses</b>	173
§ 12.01 Business Deductions — Section 162	173
[A] The Expense Must be “Ordinary and Necessary”	174
[1] Is the Expense “Ordinary”?	174
[2] Is the Expense “Necessary”?	179
[3] “Reasonable” Salaries	181
[B] “Carrying on a Trade or Business”	185
[1] What Constitutes a “Trade or Business”?	185
[2] What Constitutes “Carrying On” a Trade or Business	187
[3] Section 195 and the Amortization of Certain Pre-Operational or Start-Up Expenditures	189
§ 12.02 Deduction of Expenses for the Production of Income — Section 212	192
§ 12.03 Disallowance of and Limitations on the Deduction of Certain Expenses Related to Business and the Production of Income	194
[A] Employee Business Expenses	194
[B] Clothing Expenses Incurred by Self-Employed Taxpayers and Employees	195
[C] Deductions for Attorney Fees and Other Costs Related to Taxable Personal Injury Settlements	196
[D] Entertainment Expenses	198
[E] Expenses Raising Public Policy Considerations	200
<b>Chapter 13 • Deduction for Qualified Business Income: Section 199A</b>	203
§ 13.01 Overview of Section 199A	203
[A] Qualified Business Income	204
[B] Threshold Amount and Limitations	204
§ 13.02 The Section 199A Deduction Formula	205
[A] Definition of <i>Combined Qualified Business Income Amount</i> and Related Terms	206
[B] Computing a Taxpayer’s <i>Combined Qualified Business       Income Amount</i>	207
[C] Calculation of the Section 199A Deduction	208
<b>Chapter 14 • Capital Expenditures</b>	217
§ 14.01 Deductible Expense or Capital Expenditure?	217
§ 14.02 Defining Capital Expenditures — <i>INDOPCO</i>	218
§ 14.03 Administrative Guidance: The Capital Expenditures Regulations	221
[A] Amounts Paid to Acquire or Produce Tangible Property	222
[B] Amounts Paid to Improve Tangible Property	225
[1] Improvements: Historic Rules	225
[2] Improvements	228
[3] Amounts Paid to Acquire or Create Intangibles	233

[4] Amounts Paid with Regard to the Sale, Removal, or Retirement of an Asset	236
§ 14.04 Miscellaneous Items	237
[A] Expansion Costs	237
[B] Business Downsizing Costs	238
[C] Employee Training Costs	238
[D] Advertising Expenses	238
§ 14.05 Purchase or Lease	240
<b>Chapter 15 • Depreciation</b>	241
§ 15.01 Depreciation	241
[A] Depreciable Property	241
[B] Recovery Period — The Useful Life Concept	244
[1] Historical Development	244
[2] Current Recovery Periods — Modified Accelerated Cost Recovery System (MACRS)	245
[C] Depreciation Methods	247
[D] Conventions	249
§ 15.02 Computing the Depreciation Deduction	252
§ 15.03 Additional First Year Depreciation or Bonus Depreciation — Section 168(k)	254
§ 15.04 Amortization of Intangibles — Section 197	257
§ 15.05 Relationship between Basis and Depreciation	257
§ 15.06 Section 179 — Expensing Tangible Personal Property	258
§ 15.07 The Relationship of Debt to Depreciation	262
<b>Chapter 16 • Losses and Bad Debts</b>	269
§ 16.01 Losses	269
[A] The Business or Profit Requirement for Individuals	270
[1] Personal Losses Not Deductible	270
[2] Conversion of Personal Use Property to Income Producing Property	272
[B] When Is a Loss Sustained?	273
[1] Worthless Securities	274
[2] Theft Losses	275
[C] Amount of the Deduction	275
[1] Reimbursement	276
[2] Post-Conversion Losses	276
[D] Disallowed Losses	277
§ 16.02 Bad Debts	277
[A] Bona Fide Debt Requirement	278
[B] Worthlessness	278
[C] Business or Nonbusiness Debts	279
[D] Amount Deductible	281
[E] Guarantees	282

§ 16.03 Bad Debts and Losses: The Interplay between Sections 166 and 165	283
<b>Chapter 17 • Travel Expenses and Business Meals</b>	<b>285</b>
§ 17.01 Commuting	286
§ 17.02 Other Transportation Expenses	289
§ 17.03 Expenses for Meals and Lodging While in Travel Status	290
§ 17.04 Away from Home	292
§ 17.05 Travel Expenses of Spouse	296
§ 17.06 Reimbursed Employee Expenses	297
§ 17.07 Business-Related Meals	298
§ 17.08 Limitation on Deduction for Meals	301
§ 17.09 Substantiation Requirements	304
§ 17.10 Relationship to Section 212	305
<b>Chapter 18 • Educational Expenses</b>	<b>307</b>
§ 18.01 Categorization of Educational Expenses	307
§ 18.02 The Skills-Maintenance or Requirement-of-Applicable-Law Tests of Regulation § 1.162-5(a)	309
§ 18.03 The Minimum Educational Requirements and New Trade or Business Tests	311
§ 18.04 Travel Expenses	314
§ 18.05 Education Tax Incentives	315
[A] Education Credits	315
[B] Education Deductions	317
[C] Education Exclusions from Income	317
<b>Chapter 19 • Dual Use Property: Home Offices, Vacation Homes, and Passenger Automobiles</b>	<b>321</b>
§ 19.01 Home Office Deductions	321
[A] General Background — <i>Bodzin v. Commissioner</i>	323
[B] Enactment of Section 280A	325
[C] Principal Place of Business	326
[D] Convenience of Employer	327
[E] Limitation on Amount of Deduction	328
§ 19.02 Vacation Home Deductions	330
§ 19.03 Passenger Automobiles	333
§ 19.04 Conclusion	337
<b>Chapter 20 • The Interest Deduction</b>	<b>339</b>
§ 20.01 What Constitutes Interest?	339
§ 20.02 Deduction of Interest Incurred in a Trade or Business or in the Production of Income	340
§ 20.03 Deduction of Personal Interest	341
[A] Qualified Residence Interest	344
[B] Interest on Education Loans	348

§ 20.04 Investment Interest	349
[A] The § 163(d) Limitation on Investment Interest	350
[B] The § 163(j) Limitation on Business Interest	352
§ 20.05 Timing Issues and Limitations	353
[A] Allocation of Prepaid Interest	353
[B] Capitalization of Interest	355
[C] Payment Issues	355
<b>Chapter 21 • The Deduction for Taxes</b>	<b>359</b>
§ 21.01 Historical Background	359
§ 21.02 Taxes Deductible under Section 164	359
§ 21.03 Aggregate Limitation of \$10,000 on Section 164 Deduction	361
§ 21.04 Party Eligible to Claim the Deduction	363
§ 21.05 Special Problems Associated with the Deduction of Real Property Taxes and Assessments	365
[A] Real Property Assessments	365
[B] Apportionment of Real Property Taxes Between Buyer and Seller	366
§ 21.06 Public Policy Considerations	368
<b>Chapter 22 • Casualty Losses</b>	<b>371</b>
§ 22.01 Definitional Questions	373
[A] Casualty Losses	373
[B] Theft Losses	377
§ 22.02 Timing of the Loss	378
§ 22.03 Amount of the Loss	379
§ 22.04 Insurance Coverage	383
<b>Chapter 23 • Medical Expenses</b>	<b>385</b>
§ 23.01 Deductibility of Medical Expenses	386
[A] Medicine and Drugs	386
[B] Counseling Costs	388
[C] Capital Expenditures	389
[D] Meals and Lodging	390
[E] Illegal Operations or Treatment	391
[F] Qualified Long-Term Care	391
[G] Transportation Expenses	392
§ 23.02 Medical versus Personal Expenses	392
<b>Chapter 24 • Charitable Deductions</b>	<b>395</b>
§ 24.01 In General	395
§ 24.02 Requirements for Charitable Deductions	395
[A] Who Is a Qualified Recipient?	396
[B] What Is a “Contribution” or “Gift”?	399
[C] Actual Payment Required	403
[D] Limitation on Charitable Deductions	404



§ 24.03 Contribution of Services	406
§ 24.04 Contribution of Appreciated Property	407
§ 24.05 Contributions of Partial Interests in Property	411
§ 24.06 Bargain Sale to Charity	414
§ 24.07 Substantiation	415
<b>Chapter 25 • Limitations on Deductions</b>	<b>417</b>
§ 25.01 Section 267: Losses between Related Parties	417
[A] Section 267(a)(1) Loss Rule	417
[B] The Section 267(a)(2) Matching Requirement	421
[C] Other Matching Rules — Section 404(a)(5) and Section 83	423
§ 25.02 Section 265: Expenses Related to Tax-Exempt Income	424
[A] Section 265(a)(1) General Rule	424
[B] Section 265(a)(2): Tax-Exempt Interest	426
[C] Allocation	428
§ 25.03 Section 1091: Wash Sales	429
§ 25.04 Judicial Limitations on Interest Deductions	430
<b>Chapter 26 • Cash Method Accounting</b>	<b>435</b>
§ 26.01 Income under the Cash Method	435
[A] In General	435
[B] Constructive Receipt	436
[1] Specific Factors Affecting Application of Constructive Receipt Doctrine	437
[a] Distance	437
[b] Knowledge	439
[c] Contractual Arrangements	439
[d] Forfeitures or Other Penalties	439
[e] Relationship of the Taxpayer to the Payor	440
[2] Specific Exceptions to Constructive Receipt Rules	441
[C] Cash Equivalency Doctrine	442
[D] Economic Benefit Doctrine	445
[E] Non-Qualified Deferred Compensation Arrangements	449
[F] Section 409A and Revenue Ruling 60-31	451
[G] Lottery Prizes	452
[H] Prepayments	453
§ 26.02 Deductions under the Cash Method	453
[A] In General	453
[B] Cash Method Prepayments	456
<b>Chapter 27 • Accrual Method Accounting</b>	<b>461</b>
§ 27.01 The All Events Test	461
§ 27.02 Accrual of Income	462
[A] General Rules	462
[B] Income Prior to Receipt: Accrual Issues	463

[C] Receipt Prior to Earning: Prepayments	466
§ 27.03 Deductions under the Accrual Method	471
[A] General Rules	471
[B] Premature Accruals	474
[C] The Economic Performance Test: Section 461(h)	475
[D] The Recurring Item Exception and the 3½ Month Exception to the Economic Performance Test	478
[E] Safe Harbor Method of Accounting for Ratable Service Contracts	479
[F] Capitalization	480
[G] Contested Liabilities	481
§ 27.04 Choice of Accounting Methods	482
<b>Chapter 28 • Annual Accounting</b>	485
§ 28.01 Restoring Amounts Received under a Claim of Right	485
[A] Appearance of a Right	488
[B] No Unrestricted Right	489
§ 28.02 The Tax Benefit Rule	491
[A] The “Fundamental Inconsistency” Test	493
[B] Erroneous Original Deduction	495
§ 28.03 Net Operating Losses	495
<b>Chapter 29 • Capital Gains and Losses</b>	501
§ 29.01 Historical Overview	501
[A] Preferential Treatment for Long-Term Capital Gain	502
[B] Limitation on the Deduction of Capital Losses	505
[C] Justification for Preferential Capital Gain Treatment	506
§ 29.02 Current Law: Section 1(h)	507
[A] Maximum Rates on Long-Term Capital Gain under the Current Law	507
[B] The Components of Net Capital Gain: 28-Percent Rate Gain; Unrecaptured Section 1250 Gain; and Adjusted Net Capital Gain	510
[1] 28-Percent Rate Gain: Collectibles Gain and Section 1202 Gain	510
[2] Unrecaptured Section 1250 Gain —25 Percent Rate	511
[3] Adjusted Net Capital Gain: 20 Percent, 15 Percent and 0 Percent Rates	512
[4] Adjusted Net Capital Gain: Qualified Dividend Income	514
[C] Attribution of Capital Losses Included in the Computation of Net Capital Gain	515
§ 29.03 The Section 1211(b) Limitation on the Deduction of Capital Losses	518
§ 29.04 Definition of Capital Asset	522
[A] Section 1221(a)(1): Inventory, Stock in Trade and Property Held Primarily for Sale to Customers in the Ordinary Course of the Taxpayer’s Trade or Business	524

[B] Section 1221(a)(2): Property Used in the Taxpayer's Trade or Business	526
[C] Section 1221(a)(3): Patents, Inventions, Copyrights, Literary, Musical, or Artistic Compositions, Etc.	526
[D] Section 1221(a)(4): Accounts Receivable for Services Rendered or Inventory-Type Assets Sold	527
[E] Section 1221(a)(5): Certain Publications of the U.S. Government	528
[F] Section 1221(a)(8): Supplies Used or Consumed in the Taxpayer's Trade or Business	528
[G] Judicially Established Limits on Capital Asset Definition	528
§ 29.05 The Sale or Exchange Requirement	532
§ 29.06 The <i>Arrowsmith</i> Rule: Characterization of Certain Gains or Losses Dependent on Prior Tax Treatment of Related Gains or Losses	534
§ 29.07 Holding Period	536
<b>Chapter 30 • Quasi-Capital Assets: Section 1231</b>	537
§ 30.01 Identifying Section 1231 Gains and Losses	537
§ 30.02 The Hotchpot Analysis	541
§ 30.03 Recapture of Net Ordinary Losses: Section 1231(c)	544
<b>Chapter 31 • Depreciation Recapture</b>	547
§ 31.01 Section 1245 Recapture	548
§ 31.02 Section 179 Recapture	552
§ 31.03 Section 1250 Recapture	553
§ 31.04 Unrecaptured Section 1250 Gain	555
§ 31.05 Section 1239 Ordinary Income	557
§ 31.06 Other Recapture Provisions	559
<b>Chapter 32 • Assignment of Income and Kiddie Tax</b>	561
§ 32.01 The Progressive Rate Structure	561
§ 32.02 Development of Rules Limiting Income-Shifting	562
§ 32.03 Community Property	564
§ 32.04 Application of the Assignment of Income Rules	566
§ 32.05 The Kiddie Tax	570
<b>Chapter 33 • Below-Market Loans</b>	577
§ 33.01 History: Pre-Section 7872	577
[A] Early IRS Attempts at Taxation	577
[B] Gift Tax Consequences of Interest-Free Loans	579
[C] Post <i>Dean/Johnson</i> History	579
§ 33.02 Rationale for Section 7872	581
§ 33.03 Operation of Section 7872	582
[A] Treatment of Term Loans Other Than Term Gift Loans	584

[B] Demand Loans and Term Gift Loans	587
[C] Exceptions to the Basic Operating Rules	589
<b>Chapter 34 • Effect of Debt on Basis and Amount Realized</b>	<b>593</b>
§ 34.01 <i>Crane v. Commissioner</i>	593
§ 34.02 <i>Commissioner v. Tufts</i>	594
§ 34.03 Nonrecourse Borrowing and the Section 108 Insolvency Exclusion	599
§ 34.04 Nonrecourse Borrowing and Appreciated Property	600
§ 34.05 Impact of Contingent Liabilities	602
<b>Chapter 35 • Transfers between Spouses and Incident to Divorce</b>	<b>605</b>
§ 35.01 Property Transfers	605
§ 35.02 The Nonrecognition Rule of Section 1041	606
§ 35.03 Section 1041 and Assignment of Income	610
§ 35.04 Section 1041 and Corporate Redemptions of Stock	610
§ 35.05 The Interaction of Sections 121 and 1041	611
§ 35.06 Alimony, Child Support, and Related Tax Issues in Divorce	613
<b>Chapter 36 • Like-Kind Exchanges of Real Property</b>	<b>617</b>
§ 36.01 Continuity of Interest	618
§ 36.02 The Like-Kind Requirement	619
§ 36.03 The Holding Requirements	621
§ 36.04 “Solely” for Like Kind Property: The Presence of “Boot”	625
§ 36.05 Treatment of Liabilities	626
§ 36.06 Basis Calculations	627
§ 36.07 The Relationship between § 267(a)(1) and § 1031	633
§ 36.08 Sale or Exchange?	633
§ 36.09 Three-Way Exchanges and Deferred Exchanges	635
§ 36.10 Reverse <i>Starker</i> Exchanges	639
§ 36.11 Exchanges Qualifying for Both § 121 and § 1031	639
§ 36.12 Section 121(D)(10) — Property Acquired in a Like-Kind Exchange	641
<b>Chapter 37 • Involuntary Conversions</b>	<b>643</b>
§ 37.01 General Policy	643
§ 37.02 The Mandatory and Elective Rules of Section 1033	644
§ 37.03 Involuntary Conversion Events	645
§ 37.04 Similar or Related in Service or Use	646
[A] Special Rule for Condemnation of Real Property Used for Business or Investment	650
[B] Federally Declared Disasters	653
§ 37.05 Time for Replacement	655
§ 37.06 Partial Recognition of Gain under Section 1033	656
§ 37.07 Basis of Replacement Property	657
§ 37.08 Holding Period of Replacement Property	658
§ 37.09 Involuntary Conversion of Principal Residence	658

<b>Chapter 38 • Installment Sales</b>	661
§ 38.01 Statutory Framework	661
§ 38.02 Payments and Liabilities	663
§ 38.03 Recapture Income	666
§ 38.04 Electing Out of the Installment Method	667
§ 38.05 Exclusions	668
§ 38.06 Contingent Payment Sales	669
§ 38.07 Dispositions of Installment Obligations	671
§ 38.08 Second Dispositions by Related Persons	672
§ 38.09 Sales of Depreciable Property to Related Persons	676
§ 38.10 Special Rules for Nondealers	677
§ 38.11 Installment Obligations and Like-Kind Exchanges	679
<b>Chapter 39 • Sale of a Business and Sale-Leasebacks</b>	681
§ 39.01 Sale of a Sole Proprietorship	681
[A] The Standard of <i>Williams v. McGowan</i>	681
[B] Goodwill, Going Concern Value and Covenants Not to Compete	682
[1] Goodwill	682
[2] Going Concern Value	683
[3] Covenant Not to Compete	683
[C] Tax Consequences of Allocation of Purchase Price	684
[1] Historic Allocation Strategies	684
[2] Section 197 — Amortization of Business Intangibles	685
§ 39.02 Valuing Goodwill, Going Concern Value, and Covenants Not to Compete	689
§ 39.03 Sale-Leaseback	694
[A] Sale-Leaseback Characterized as Financing Arrangement	695
[B] Sale-Leaseback Characterized as a Like-Kind Exchange	696
<b>Chapter 40 • An Introduction to Original Issue Discount</b>	699
§ 40.01 Original Issue Discount: Introduction	699
§ 40.02 OID: Debt Instruments Issued for Cash	702
[A] Determining the Amount of OID	705
[B] Current Inclusion of OID	707
[C] Deduction of OID	708
[D] Gain or Loss on Sale, Exchange or Retirement	709
[E] Market Discount	710
§ 40.03 Sales and Exchanges of Property and Section 467 Rental Agreements	711
<b>Chapter 41 • Limitations on Tax Shelters</b>	713
§ 41.01 The At Risk Rules —Section 465	713
[A] General Background	713
[B] Operation of the At Risk Rules	714

[1] Activities Subject to the at Risk Rules	716
[2] Determination of the Initial Amount at Risk	716
[3] Qualified Nonrecourse Financing	717
[4] Adjustments to the Amount at Risk	718
§ 41.02 Section 469 — Limitation on Passive Activity Losses and Credits	720
[A] Background	720
[B] Section 469 — In General	722
[C] Passive Activities	724
[1] Material Participation	724
[2] Rental Activities	725
[D] Scope of Passive Activities	726
[E] Treatment of Losses and Credits	727
[F] Portfolio Income and Expenses	728
[G] Exception for Active Participation in Rental Real Estate	729
[H] Disposition of Taxpayer's Entire Interest in Passive Activity	730
§ 41.03 Section 461(l) — Excess Business Loss Allowance	732
<b>Chapter 42 • The Alternative Minimum Tax</b>	737
§ 42.01 Mechanics	737
§ 42.02 Determining Alternative Minimum Taxable Income	741
[A] Section 56 and 58 Adjustments	742
[1] Depreciation	742
[2] Limitation on Standard Deduction and State and Local Taxes	743
[B] Section 57 Preferences	743
§ 42.03 Determining Tax Liability	744
§ 42.04 Credits Allowed	745
<b>Appendix A • Note on Miscellaneous Exclusions</b>	747
<b>Appendix B • Additional Accounting Considerations</b>	753
<b>Table of Cases</b>	759
<b>Table of Statutes</b>	767
<b>Table of Agency Decisions</b>	789
<b>Index</b>	793

# Preface

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As experienced tax professors, we know that students encountering the complexities of the tax code for the first time are often frustrated by its difficulties and look to their casebooks or to supplemental material for an adequate overview of the principles and policies underlying federal income tax law and for a detailed explanation of the interpretation and application of pertinent provisions of the Internal Revenue Code. Thus, such overviews and explanations have been principal features of the authors' casebook, *Taxation of Individual Income*. This book in turn adapts material from *Taxation of Individual Income* for those students using other casebooks who seek such supplemental material to assist them in their study. We have specifically designed this book to supplement other casebooks used in traditional courses in federal individual income taxation.

This book consists of forty-two chapters with each chapter addressing a basic topic in individual income taxation, e.g., the taxation of personal injury awards, the interest deduction, installment sales. Because the provisions of the Internal Revenue Code are necessarily at the heart of tax study, we have included in each chapter a part or all of the Code section(s) pertinent to the specific topic. Likewise, the chapters contain summaries of leading cases and relevant administrative rulings as well as numerous examples explaining the application of the law.

For students in law schools or business programs, we suggest that, before turning to this book, students first read the cases and other materials assigned by their professors. With that reading as background, students should then read the corresponding materials in this book to acquire a broader overview of the area including the development of the law related to a specific topic.

While this book is designed primarily for students, we recognize that it may also prove valuable to the general practitioner. Before representing a client in a property transaction, the attorney may be well advised to read the chapter(s) relevant to the representation. Not only will this book provide the attorney with helpful overviews of the tax law related to a client matter, it will also serve as a tool for locating cases and other relevant authority.

In sum, we have written this book as a basic guide for students studying the tax law for the first time and for general practitioners handling transactions with an individual

income tax dimension. A word of caution: neither this guide nor any casebook or supplemental material should be viewed as a substitute for careful reading of the Internal Revenue Code. Lawyers and accountants must ultimately base their decisions on the Code and the judicial and administrative interpretations of the Code. Our hope is that this book will aid in the study of the Code and the application of its provisions.



# Acknowledgments

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Since the Sixth Edition of this book was published in 2019, statutory changes combined with new court and administrative materials have necessitated a new edition. As in the past, we have used the preparation of this new edition as an opportunity to take advantage of the helpful suggestions from our tax colleagues throughout the nation. We are most grateful to them. We are also indebted to Elisabeth Ebben of Carolina Academic Press. Her assistance and support in the preparation of the manuscript for the Seventh Edition were indispensable, and for that we are most appreciative.

